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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 006886

SIPDIS

STATE FOR E, EB/IFD, AND EUR/SE  
TREASURY FOR OASIA - JLEICHTER AND MMILLS  
NSC FOR MCKIBBEN AND BRYZA

E.O. 12958: DECL: 11/03/2005  
TAGS: [EAID](#) [EFIN](#) [PREL](#) [PGOV](#) [TU](#)  
SUBJECT: MEETING WITH TREASURY UNDERSECRETARY

REF: A. STATE 295374  
[1](#)B. ANKARA 6574

Classified by Acting Economic Counselor Andrew Snow for reasons 1.5 (b) and (d).

[1](#)1. (C) Summary: Econoff conveyed to Treasury Undersecretary Ibrahim Canakci that the U.S. would not revisit the political conditionality in the FA. Canakci explained that, although the Treasury had originally intended merely to seek approval from the Council of Ministers, the GOT is now debating whether parliamentary approval is necessary. Even if it is not, the President will have to sign off on ratification. Meanwhile, the political controversy has engendered the GOT's current wait-and-see approach. Canakci asserted that the required actions for IMF Board approval of the Sixth Review were on track, and that the GOT had committed to re-energize its efforts on World Bank-sponsored structural reforms. End Summary.

State of Play on the U.S. Financial Agreement:  
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[1](#)2. (C) On November 4, Econoff met with Turkish Treasury Undersecretary Ibrahim Canakci and Director General for External Finance Melih Nemli. Econoff requested the meeting to follow up on Minister Babacan's comments to Secretary Snow in Mexico to the effect that the Foreign Ministry awaited the Embassy's reply to the GOT's request for help on the political conditionality in the FA. Econoff explained that the Ambassador had checked with Washington and had reported back to MFA Undersecretary Ziyal that the U.S. could not repeat not revisit the political conditionality for the reasons cited in ref A. Canakci did not seem to know this, and undertook to pass the message to Babacan.

[1](#)3. (C) Canakci shed a bit of light on the state of play within the GOT and on the ratification process. Whereas the Treasury had originally intended merely to seek Council of Ministers approval, there is now a debate within the GOT about whether parliamentary approval is required. Canakci said the Foreign Ministry believes that the Financial Agreement falls under law number 244--a framework law governing international agreements--and therefore the FA requires parliamentary approval. Canakci was careful to say that the Treasury has not yet agreed with the Foreign Ministry-- Treasury's experts are studying the issue. Canakci and Melih said Treasury has concluded other international financial agreements outside the purview of law 244 and has not obtained parliamentary approval. With the U.S. Financial Agreement, however, the long-term nature and the political content may mean that parliamentary approval is necessary. Treasury is also consulting with the Prime Ministry.

[1](#)4. (SBU) Even if the GOT decides that parliamentary approval is unnecessary, Canakci confirmed that the President has to sign off on the decision by the Council of Ministers.

[1](#)5. (C) Canakci would not be drawn on whether the GOT currently had a strategy, except to say that given the political controversy, the thinking is to hold off a bit before presenting the FA to the Council of Ministers. Canakci agreed that the USG should not expect a disbursement request in the next couple of weeks.

IFI issues:  
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16. (C) On the IMF's Sixth Review, Canakci expected the Council of Ministers to approve the Second Phase of the Direct Tax Reform next week. The Public Financial Management and Control Law and the law to strengthen the BRSA's hand in judicial proceedings should be passed by Parliament by mid-November. Canakci said the board date might be delayed slightly by the Parliament's busy calendar. Though there was no serious controversy about the Public Financial Management and Control Law, it was a long text and would require some time for consideration in Parliament. The BRSA law has elicited objections from the Bankers' Association, according to Canakci, who feel that it is an overreaction to the Icar Bank case. He chuckled as he pointed out that the bankers cannot criticize the law publicly.

17. (SBU) With the World Bank Country Assistance Strategy coming to the Bank Board on November 6, Canakci confirmed that the GOT had re-committed to focus on Bank-sponsored structural reforms. According to Canakci, later this month, when the new World Bank Resident Representative, Andrew Vorkink, permanently moves to Ankara, the senior GOT officials will sit down with Vorkink and elaborate an agenda and road map to resolve outstanding obstacles. The areas of greatest difficulty have been energy and agricultural sector reforms. Canakci agreed that, with the recent spate of good macroeconomic news, now is the time for the GOT to push forward on structural reforms. Canakci claimed that senior GOT officials understood this.

18. (SBU) Comment: With the FA stalled, and the IMF less focused on structural reforms than the Bank, the CAS board discussion is an ideal opportunity for the U.S. to urge renewed GOT attention to structural reforms. Though Canakci claims the GOT will be re-energized on these issues, the track record suggests it would be desirable for the U.S. to signal our vigilance on the structural front. End Comment.

EDELMAN